

LYNCHBURG CITY COUNCIL

Agenda Item Summary

MEETING DATE: **October 25, 2005**

AGENDA ITEM NO.: //

CONSENT:

REGULAR: **X**

CLOSED SESSION:

(Confidential)

ACTION: **X**

INFORMATION:

ITEM TITLE: **Appropriation of \$310,000 to Support the Bluffwalk Center Project (Second Reading)**

RECOMMENDATION: Adopt the attached resolution appropriating \$310,000 to the Industrial Development Authority to support the Bluffwalk Center project.

SUMMARY: Since Council's action on October 11 to support the Bluffwalk Center project two other groups have approved loans to close the financing gap. As a result, the \$910,000 gap will be closed as follows:

- \$150,000 in Contractor savings
- \$200,000 loan from the IDA
- \$250,000 loan from the Lynchburg Area Development Corporation
- \$310,000 loan from the City through the IDA

The loans will have the same terms; a seven year, unsecured note with interest to accrue at the opportunity cost if the City had invested the funds. Principle and accrued interest will be paid when the project is refinanced.

Council also asked that the possibility of taking an equity position be explored. The City Attorney has opined that this would be an inappropriate (and unauthorized by State Code) investment of City funds. The IDA, on the other hand, could take an equity position in the project, although it has shown no interest in doing so.

PRIOR ACTION(S): October 11, 2005 Council adopted a resolution (first reading) appropriating up to \$586,000 for the project. There is a long record of Council support for this project.

FISCAL IMPACT: \$310,000 from the General Fund Reserve for Contingencies to be replaced by the reimbursement from the Blue Ridge Regional Jail in January.

CONTACT(S): Kimball Payne, 455-3990

ATTACHMENT(S): Briefing Paper (updated)

REVIEWED BY: lkp

Resolution

BE IT RESOLVED That the FY 2006 General Fund Budget is amended and an amount not to exceed ~~\$586,000~~ \$310,000 is appropriated to the Lynchburg Industrial Development Authority, with resources of ~~\$586,000~~ \$310,000 from the Blue Ridge Regional Jail Authority's FY 2005 budgetary settlement, for the Bluffwalk Center project.

Introduced: October 11, 2005

Adopted: October 25, 2005

Certified:

Clerk of Council

146Res

Bluffwalk Center

Briefing Paper

November 16, 1999 overview of project presented to City Council.

May 2000—estimated cost \$8.5 million (\$4.5 million from private investment, also State and Federal historic tax credits, enterprise zone tax credits, and ~~façade improvement program, \$50,000~~), 54 room hotel, conference and performance space, a Virginia wine center café, a family restaurant and microbrewery, and additional retail/ business space. Anticipated to produce 130 jobs.

5/16/2000 City Council work session—Council endorsed the project and authorized loan application

June 9, 2000 City application for \$800,000 Economic Development Initiative Grant from HUD tied to (if approved) application within 60 days for \$3.2 million Section 108 loan guarantee.

October 10, 2000 public hearing followed by adoption of a resolution by City Council authorizing Section 108 Loan Guarantee Program application.

City sold to the project, for \$1, a triangular piece of property at the intersection of Commerce and Main Streets and has provided, by franchise, right of way between Commerce St. & Horsepen Rd. for parking.

By December 2001, \$11.4 million project, including a \$1.5 million conventional loan; \$2.475 million from investors; downsized to a 29 room hotel

January 29, 2002; \$2.1 million from private investors, anticipating \$1.5 million conventional loan from BB& T as part of permanent financing—Additional public hearing before Council due to inclusion of bank loan.—project appraised at \$7.1 million after fitting up.

February 2003--# hotel rooms increased to 43 (office space eliminated)

May 2004—New Market Tax Credits enter the picture to finally close the ever present \$1 million gap.

February 2005—now a \$17.4 million development project with \$10.84 million construction cost; issue of subordination of HUD loan arises, \$3.5-4.0 million conventional loan needed.

June 2005—now working with Wachovia on financing and New Market Tax Credits

\$4.4 million spent to date

August 9, 2005 Council adopted a resolution authorizing subordination of HUD loan.

Today—additional \$910,000 needed to close the gap created by increased construction costs due to Hurricane Katrina.

Deadline of November 15 to close and retain tax credit allocation for the project.

Bluffwalk Center includes The Craddock Terry Hotel and Conference Center, Shoemakers Restaurant, the Jefferson Street Microbrewery and Packets Restaurant and Brewpub

43 rooms at \$108/night; 60% occupancy in the pro forma

130 capacity in the conference center

\$1.68 million in sales, meals & lodging taxes over 7 years

new appraisal--\$6.8 million

Scenarios:

1. Best case: project closes by November 15, construction starts and project fully opens in 12 months (Packets Restaurant may open in 6 months). Project revenues exceed the pro forma and all obligations are met. Project is refinanced after 7 years and additional City money is returned with interest.
2. Worst case: project cannot close financing gap in the short term; bank terms change, New Market Tax Credits lost, construction costs continue to escalate; project defaults on the HUD loan, City gains ownership of the buildings (value \$800,000) and loses approximately \$300,000 a year in CDBG allocation over next 17 years; non-profits that have received about \$1 million a year in CDBG allocation will be affected.
3. Project closes financial gap, financing closes and construction gets underway. Center operates for 7 years, until tax credits are covered, and then fails. City is a half owner of the property; Wachovia owns the other half. CDBG allocation becomes at risk if HUD loan defaults. Property will probably be sold and have new management.
4. Property fails within first 7 years. Wachovia pays tax credit penalties or takes over management of the property to ensure that 7 year window on the tax credits is closed.

How to close the gap:

- \$250,000 loan from LADC at 4% ~~(tentative)~~—Board meeting October 14 **(Approved under same terms as the IDA loan)**
- \$150,000 in savings from contractor
- \$200,000 loan from IDA ~~(tentative)~~—IDA meets October 13 ~~(City to forgive \$343,000 1994 loan to IDA for purchase of property in Lynchpin Industrial Park)~~ **Loan approved without reference to the earlier loan from the City to the IDA.**
- \$310,000 from City (through the IDA) with the source being the anticipated refund from the BRRJ (\$586,000)—in the form of a 7 year unsecured loan with interest to be accrued at the City's investment return rate and to be repaid when the project is refinanced in seven years. **City Council approved, on first reading, a resolution appropriating up to \$586,000 to support the project on October 11, 2005.**

Action needed by Council

~~Approve, on first reading, a maximum appropriation of \$910,000 from the undesignated General Fund balance and authorize a public hearing on a budget amendment for October 25 with the second reading to follow.~~

~~The amount will be reduced once commitments are received from other sources. If less than \$500,000, a public hearing will not be required.~~

Approve the second reading of a resolution appropriating a reduced amount, \$310,000, for the project. The funds will be transferred to the IDA and will be combined with IDA funds in the amount of \$200,000 to provide an unsecured loan with a seven (7) year term, with interest equal to the City's opportunity cost if the funds had been invested. Principle and accrued interest to be paid when the project is refinanced in seven years.

lkp
10/11/05 **Amended 10/20/05**